

GOODWILL INDUSTRIES  
OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

\*\*\*

FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2008 and 2007

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Goodwill Industries of Santa Clara County, Inc.  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited the accompanying statements of financial position of Goodwill Industries of Santa Clara County, Inc. (a California nonprofit public benefit corporation) as of December 31, 2008 and 2007 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goodwill Industries of Santa Clara County, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2009, on our consideration of Goodwill Industries of Santa Clara County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Goodwill Industries of Santa Clara County, Inc. taken as a whole. The accompanying schedule of expenditures of federal and other governmental awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION

San Jose, California

May 6, 2009

(except for Note 17, as to  
which the date is May 28, 2009)

SECTION I  
FINANCIAL SECTION  
FINANCIAL STATEMENTS

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	2008		2007	
	Unrestricted	Temporarily Restricted	Total	Total
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 45,376	\$ -	\$ 45,376	\$ 12,174
Investments, at Market Value	643,496	-	643,496	870,969
Accounts Receivable	409,953	-	409,953	557,221
Grants Receivable	571,577	413,617	985,194	598,433
Inventories	1,583,773	-	1,583,773	1,054,010
Prepaid Expenses	206,755	-	206,755	1,951,101
Notes Receivable	3,227	-	3,227	261,657
				44,458
Total Current Assets	3,464,157	413,617	3,877,774	4,751,590
<b>LAND, BUILDINGS AND EQUIPMENT, NET</b>	13,658,987	-	13,658,987	14,306,299
<b>OTHER ASSETS:</b>				
Notes Receivable	-	-	-	143,406
Collection of Antique Items	96,780	-	96,780	96,780
Total Other Assets	96,780	-	96,780	240,186
<b>TOTAL ASSETS</b>	<b>\$ 17,219,924</b>	<b>\$ 413,617</b>	<b>\$ 17,633,541</b>	<b>\$ 19,298,075</b>
<b>CURRENT LIABILITIES:</b>				
Bank Overdraft	-	-	-	\$ 64,988
Line of Credit	2,605,827	-	2,605,827	2,800,000
Accounts Payable	1,417,535	-	1,417,535	1,210,453
Accrued Payroll and Benefits	846,852	-	846,852	828,037
Other Accrued Liabilities	72,377	-	72,377	75,932
Capital Lease Obligations	174,410	-	174,410	172,374
Deferred Rent	51,894	-	51,894	49,038
Total Current Liabilities	5,168,895	-	5,168,895	5,200,822
<b>LONG-TERM LIABILITIES:</b>				
Capital Lease Obligations	487,807	-	487,807	655,215
Deferred Rent	83,316	-	83,316	135,210
Accrued Pension Costs	1,781,701	-	1,781,701	467,264
Total Long-Term Liabilities	2,352,824	-	2,352,824	1,257,689
Total Liabilities	7,521,719	-	7,521,719	6,458,511
<b>NET ASSETS:</b>				
Unrestricted Net Assets:				
Undesignated	9,054,709	-	9,054,709	11,375,162
Designated - Foundation Trust Fund	643,496	-	643,496	865,969
Temporarily Restricted Net Assets	-	413,617	413,617	598,433
Total Net Assets	9,698,205	413,617	10,111,822	12,839,564
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 17,219,924</b>	<b>\$ 413,617</b>	<b>\$ 17,633,541</b>	<b>\$ 19,298,075</b>

The Accompanying Notes are an Integral Part of these Financial Statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>						
Public Support:						
Retail Programs	\$ 20,989,062	\$ -	\$ 20,989,062	\$ 21,024,402	\$ -	\$ 21,024,402
Donated Goods	4,325,860	-	4,325,860	5,097,017	-	5,097,017
Grants and Contributions	444,966	679,345	1,124,311	452,480	816,485	1,268,965
Donated Services	48,000	-	48,000	-	-	-
Total Public Support	25,807,888	679,345	26,487,233	26,573,899	816,485	27,390,384
Revenue:						
Production Programs	1,666,688	-	1,666,688	1,377,320	-	1,377,320
Rent Income	400,104	-	400,104	363,452	-	363,452
Vocational School Fees	290,177	-	290,177	326,538	-	326,538
Miscellaneous	103,837	-	103,837	87,118	-	87,118
Gain on Sale of Property and Equipment	19,549	-	19,549	3,880	-	3,880
Investment Income (Loss)	(210,286)	-	(210,286)	99,068	-	99,068
Recognition of Deposit Due to Default on Non-Sale of Real Property	-	-	-	1,000,000	-	1,000,000
Recovery Settlement	-	-	-	540,000	-	540,000
Insurance Proceeds	-	-	-	90,000	-	90,000
Trust Account Settlement	-	-	-	75,000	-	75,000
Total Revenue	2,270,069	-	2,270,069	3,962,376	-	3,962,376
Total Public Support and Revenue	28,077,957	679,345	28,757,302	30,536,275	816,485	31,352,760
Net Assets Released from Restrictions	864,161	(864,161)	-	416,979	(416,979)	-
Total Public Support, Revenue and Net Assets Released from Restrictions	28,942,118	(184,816)	28,757,302	30,953,254	399,506	31,352,760
<b>EXPENSES AND LOSSES:</b>						
Program Services:						
Cost Assigned to Donated Goods Sold	4,411,406	-	4,411,406	5,112,881	-	5,112,881
Retail Programs	19,490,329	-	19,490,329	20,268,043	-	20,268,043
Production Programs	1,489,041	-	1,489,041	1,267,432	-	1,267,432
Vocational School Programs	2,012,602	-	2,012,602	1,977,003	-	1,977,003
Total Program Services	27,403,378	-	27,403,378	28,625,359	-	28,625,359
Supporting Services:						
Management and General Fundraising	3,015,160	-	3,015,160	2,798,692	-	2,798,692
	94,488	-	94,488	63,938	-	63,938
Total Supporting Services	3,109,648	-	3,109,648	2,862,630	-	2,862,630
Total Expenses	30,513,026	-	30,513,026	31,487,989	-	31,487,989
Pension Plan Investment Loss	972,018	-	972,018	-	-	-
Total Expenses and Losses	31,485,044	-	31,485,044	31,487,989	-	31,487,989
Change in Net Assets before Effect of Adoption of FASB Statement No. 158	(2,542,926)	(184,816)	(2,727,742)	(534,735)	399,506	(135,229)

The Accompanying Notes are an Integral Part of these Financial Statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES  
(Continued)

Years Ended December 31, 2008 and 2007

	2008		2007	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Effect of Adoption of FASB Statement No. 158	-	-	290,823	-
<b>CHANGE IN NET ASSETS</b>	(2,542,926)	(184,816)	(825,558)	399,506
<b>NET ASSETS, Beginning of Year</b>	12,241,131	12,839,564	13,066,689	198,927
<b>NET ASSETS, End of Year</b>	<u>\$ 9,698,205</u>	<u>\$ 413,617</u>	<u>\$ 12,241,131</u>	<u>\$ 598,433</u>
		<u>\$ 10,111,822</u>	<u>\$ 12,241,131</u>	<u>\$ 12,839,564</u>
				<u>Total</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2008 with Comparative Totals for the Year Ended December 31, 2007

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL
	Cost Assigned to Donated Goods Sold	Retail Programs	Production Programs	Vocational School Programs	Management and General	Fundraising	Total	
<b>EXPENSES:</b>								
Salaries and Wages	\$ -	\$ 8,887,049	\$ 678,717	\$ 1,315,272	\$ 10,881,038	\$ 1,225,787	\$ 1,294,575	\$ 12,175,613
Employee Benefits	-	1,525,522	121,553	233,835	1,880,910	181,191	5,918	2,068,019
Payroll Taxes	-	766,938	58,572	113,506	939,016	105,784	18	1,044,818
Donated Services	-	10,560	2,400	8,160	21,120	24,480	2,400	48,000
Total Salaries and Related Expenses	-	11,190,069	861,242	1,670,773	13,722,084	1,537,242	77,124	15,336,450
Cost Assigned to Donated Goods Sold	4,411,406	-	-	-	4,411,406	-	-	4,411,406
Occupancy	-	3,607,132	313,576	63,088	3,983,796	186,809	421	4,171,026
Raw Materials and Supplies	-	2,764,835	160,216	64,188	2,989,239	39,277	148	3,028,664
Transportation	-	753,800	63,500	47,076	864,376	13,476	4	877,856
Professional Services	-	72,089	6,286	59,821	138,196	569,346	15,502	723,044
Printing and Publications	-	323,255	4,001	4,467	331,723	95,481	865	428,069
Telephone	-	117,236	18,282	23,114	158,632	56,961	3	215,596
Interest	-	-	-	-	-	187,511	-	187,511
Dues, Subscriptions and Awards	-	433	3,145	10,946	14,524	163,414	-	177,938
Conferences and Meetings	-	12,307	2,243	13,535	28,085	35,595	37	63,717
Postage and Shipping	-	10,486	1,737	-	12,223	7,620	312	20,155
Total Expenses Before Depreciation and Amortization	4,411,406	18,851,642	1,434,228	1,957,008	26,654,284	2,892,732	94,416	29,871,448
Depreciation and Amortization	-	638,687	54,813	55,594	749,094	122,428	72	871,594
Total Functional Expenses	\$ 4,411,406	\$ 19,490,329	\$ 1,489,041	\$ 2,012,602	\$ 27,403,378	\$ 3,015,160	\$ 94,488	\$ 30,513,026
Percentage of Total	14.5 %	63.9 %	4.9 %	6.6 %	89.9 %	9.8 %	0.3 %	100.0 %

The Accompanying Notes are an Integral Part of these Financial Statements.

**GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.**  
(A California Nonprofit Public Benefit Corporation)

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2007

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL	
	Cost Assigned to Donated Goods Sold	Retail Programs	Production Programs	Vocational School Programs	Total	Management and General	Fundraising		Total
<b>EXPENSES:</b>									
Salaries and Wages	\$ -	\$ 9,475,154	\$ 677,775	\$ 1,247,678	\$ 11,400,607	\$ 1,177,459	\$ 49,846	\$ 1,227,305	\$ 12,627,912
Employee Benefits	-	1,304,030	85,629	257,443	1,647,102	242,954	2,808	245,762	1,892,864
Payroll Taxes	-	887,973	63,482	116,860	1,068,315	110,284	4,669	114,953	1,183,268
Total Salaries and Related Expenses	-	11,667,157	826,886	1,621,981	14,116,024	1,530,697	57,323	1,588,020	15,704,044
Cost Assigned to Donated Goods Sold	5,112,881	-	-	-	5,112,881	-	-	-	5,112,881
Occupancy	-	3,470,996	189,579	65,970	3,726,545	177,980	1,110	179,090	3,905,635
Raw Materials and Supplies	-	2,761,471	42,943	36,750	2,841,164	48,254	621	48,875	2,890,039
Transportation	-	733,323	55,542	30,767	819,632	12,427	3	12,430	832,062
Professional Services	-	481,940	65,193	111,305	658,438	433,477	4,004	437,481	1,095,919
Printing and Publications	-	454,639	5,935	19,213	479,787	21,844	-	21,844	501,631
Telephone	-	139,500	22,774	25,115	187,389	54,980	4	54,984	242,373
Interest	-	1,967	-	-	1,967	182,041	-	182,041	184,008
Dues, Subscriptions and Awards	-	2,464	189	8,306	10,959	162,502	-	162,502	173,461
Conferences and Meetings	-	16,648	3,593	14,090	34,331	37,651	-	37,651	71,982
Postage and Shipping	-	8,257	2,625	1,060	11,942	8,006	721	8,727	20,669
Total Expenses Before Depreciation and Amortization	5,112,881	19,738,362	1,215,259	1,934,557	28,001,059	2,669,859	63,786	2,733,645	30,734,704
Depreciation and Amortization	-	529,681	52,173	42,446	624,300	128,833	152	128,985	753,285
Total Functional Expenses	\$ 5,112,881	\$ 20,268,043	\$ 1,267,432	\$ 1,977,003	\$ 28,625,359	\$ 2,798,692	\$ 63,938	\$ 2,862,630	\$ 31,487,989
Percentage of Total	16.2 %	64.4 %	4.0 %	6.3 %	90.9 %	8.9 %	0.2 %	9.1 %	100.0 %

The Accompanying Notes are an Integral Part of these Financial Statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (2,727,742)	\$ (426,052)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	871,594	753,285
Donated Equipment	(1,900)	(39,050)
Donated Inventories	(177,157)	97,490
Net Realized and Unrealized (Gains) Losses on Investments	223,579	(58,139)
Gain on Sale of Property and Equipment	(19,549)	(3,880)
Note Receivable Applied to Pension Liability	143,406	-
Recognition of Deposit Due to Default on Non-Sale of Real Property	-	(1,000,000)
Change in Accrued Interest on Notes Receivable	(4,239)	(717)
(Increase) Decrease in Assets:		
Accounts Receivable	147,268	245,088
Grants Receivable	68,816	(777,950)
Inventories	544,485	(34,302)
Prepaid Expenses	54,902	(7,088)
Increase (Decrease) in Liabilities:		
Accounts Payable	207,082	(76,214)
Accrued Payroll and Benefits	18,816	(223)
Other Accrued Liabilities	(3,555)	(60,724)
Deferred Rent	(49,038)	(13,799)
Accrued Pension Costs	1,314,437	332,058
Net Cash Provided (Used) by Operating Activities	611,205	(1,070,217)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Property and Equipment	(252,834)	(1,310,561)
Proceeds from Sale of Property and Equipment	50,000	47,000
Purchase of Investments	(13,293)	(27,152)
Proceeds from Sale of Investments	17,187	38,509
Payments Received on Notes Receivable	45,470	3,599
Net Cash Used by Investing Activities	(153,470)	(1,248,605)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in Cash Overdraft	(64,988)	64,988
Net Borrowings/(Repayments) Under Bank Line of Credit	(194,173)	1,357,297
Net Borrowings/(Repayments) on Capital Lease Obligations	(165,372)	729,285
Net Cash Provided (Used) by Financing Activities	(424,533)	2,151,570
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	33,202	(167,252)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	12,174	179,426
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	\$ 45,376	\$ 12,174
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash Paid for Interest	\$ 187,511	\$ 184,008
Acquisition of Property and Equipment Through Capital Leases	\$ -	\$ 73,492

The Accompanying Notes are an Integral Part of these Financial Statements.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ORGANIZATION:

Goodwill Industries of Santa Clara County, Inc. dba Goodwill Industries of Silicon Valley (“Goodwill” or the “Organization”) is a California nonprofit public benefit corporation founded in 1926 and serves Santa Clara and San Benito Counties. The Organization’s mission is to assist people to overcome their barriers to employment by providing a wide range of vocational training and placement support. Goodwill Industries of Santa Clara County, Inc. is part of Goodwill Industries International, a federation of over 200 autonomous, community-based Goodwill organizations worldwide. Taken together, they make up one of the largest social service organizations in the world, dedicated to serving their local communities.

NOTE 2 - PROGRAM SERVICES:

Goodwill Industries of Santa Clara County, Inc. has been built on the tradition of self sufficiency - supporting their services to the communities with income generated from their business operations. In addition to the familiar stores and donation trailers, the Organization operates GoodSource, a contract service division, GoodWheels, the auto donation and auto retail store. These Operating Divisions combined, provide the vast majority of the funding needed to support the vocational trainings offered by the Organization’s award-winning Institute for Career Development. The Organization provides employment for more than 550 individuals.

Retail Programs - Perhaps the most familiar face of Goodwill, this division processes and sells donated used goods through their 15 retail stores, provides employment opportunities and contributes the most to the financial needs to operate the training programs offered by the Institute for Career Development. Retail Programs employ approximately 350 individuals at their 15 retail stores and 29 donation collection sites.

Production Programs - GoodSource: A reputable and reliable service provider for assembly and packaging services, the Contract Service division attracts a diverse client base ranging from small local businesses to well established Fortune 500 global companies. In addition to assembly and packaging services, GoodSource provides drop ship, turn key warehousing and logistical solutions. With its keen customer focus, reliable service delivery and great flexibility, GoodSource has developed a loyal and long standing customer base and has become an “On Shore” alternative to keep jobs in the community, thus providing opportunities for people with barriers to employment.

Vocational School Programs - Institute for Career Development (ICD): A robust environment coupled with a variety of program offerings make the Institute for Career Development the training facility of choice. In addition to the long-running Accounting, Office Technology, and Customer Relations and Employability Skills trainings, new training classes were added to the curriculum. Logistical/Warehousing, Pharmacy Technician and Optometric Technician training have been introduced to meet the growing demand for qualified candidates in these occupations.

The vocational school is a fully licensed private postsecondary school specializing in vocational training, basic education, evaluation, and job placement for people with needs in a wide range of employment opportunities throughout the Bay Area. All courses taught are approved for the training of veterans under the Federal G.I. Bill and accredited by the Commission on Accreditation of Rehabilitation Facilities.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 2 - PROGRAM SERVICES (Continued):

- Youth Programs - The youth development programs offer employment related services to youth with developmental and other disabilities with Case Management as the driving component of the success of the students progression. In addition, the After School program at Willow Glen High School offers all students an opportunity to continue their academic work with additional assistance on site. For those who would prefer other activities, the program offers a variety of sports, theatre and music activities.
- Homeless Veterans Reintegration Program - Services provided to this population include, job skills training, life skills training, networking, group and individual counseling, connection to housing, food and transportation, ending the cycle of homelessness. A component of this program that the Organization is most proud of its mattress recycling program, a new business venture that created jobs for participants of the program and will divert 120 mattresses per day from our landfills.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Goodwill Industries of Santa Clara County, Inc. have been prepared on the accrual basis of accounting.

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current period for which the restrictions have been met in the current period.

Temporarily restricted net assets include those assets which are subject to donor purpose and/or time restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization adopted the provisions of SFAS No. 157, *Fair Value Measurements*, effective January 1, 2008. Under SFAS No. 157, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

SFAS No. 157 establishes a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Accounts, Grants and Notes Receivable / Allowance for Doubtful Accounts - Accounts, grants and notes receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or notes receivable. Changes in the valuation allowance have not been material to the financial statements. The allowance for doubtful accounts balance as of December 31, 2008 and 2007 was \$6,545 and \$3,181, respectively.

Promises to Give - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are receivable in less than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventories - Inventories, except for donated merchandise held for resale, are valued at the lower of cost (first-in, first-out) or market. Inventory costs of purchased goods include freight-in, assembly, and improvement costs, if any. Goods donated to Goodwill are valued at their estimated fair market value and recognized as revenue in the statements of activities. Donated merchandise remaining in inventory at year end are also recorded at their estimated fair market value. The estimated fair market value of the donated merchandise inventory is estimated as the retail-selling price of the donated inventory, less any retail processing and selling costs incurred by Goodwill. Merchandise inventory is not priced on an item-by-item basis but rather based on overall estimates of inventory turns. Donated automobiles are valued at estimated fair market value.

Land, Buildings and Equipment - Land, buildings and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	20 to 30 years
Leasehold Improvements	Shorter of Useful Life or Lease Term
Equipment and Building Improvements	3 to 10 years

Depreciation is charged to the activity benefiting from the use of the buildings or equipment.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Collection of Antique Items - Goodwill has a collection of antique women's apparel which was donated to the Organization. The collection is used in the Organization's fashion fundraising events. Goodwill maintains the collection at the Organization's headquarters where it ensures that it is protected and preserved.

The Organization capitalizes its collections. Donated collection items are recorded at fair value on the date of accession. Gains and losses on deaccessions of donated collection items, if any, are reflected in the statements of activities.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of December 31, 2008 and 2007, and is included in "accrued payroll and benefits" in the statements of financial position. The accrued vacation balance as of December 31, 2008 and 2007 was \$317,613 and \$324,057, respectively.

Capital Lease Obligations - Capital lease obligations represent the present value of the minimum lease payments for certain equipment leases.

Deferred Rent - As of December 31, 2008, seven retail stores are leased under operating leases expiring on various dates through 2021. These operating leases generally have fluctuating payments over the life of the lease. Accordingly, Goodwill has straight-lined the lease expense and has recorded the excess of the straight-lined expense over the amount paid as deferred rent.

Defined Benefit Pension Plan - In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires an employer to recognize the funded status of benefit plan, measured as the difference between plan assets at fair value and the benefit projected obligation, in the statements of financial position. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses. Goodwill adopted this standard in its financial statements for the year ended December 31, 2007.

The Organization froze the defined benefit pension plan as of March 31, 2009. See Subsequent Event Note 17.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

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GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions In-Kind - Non-Inventory - Contributions in-kind - non-inventory are also recognized in accordance with the provisions of SFAS No. 116. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Expense Allocation - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of salary expense and/or square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes - Goodwill Industries of Santa Clara County, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Advertising - The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expense for the years ended December 31, 2008 and 2007 was \$126,410 and \$236,666, respectively.

NOTE 4 - INVESTMENTS:

In 2003, the Board of Directors approved to transfer certain investments to Silicon Valley Community Foundation (SVCF), a California nonprofit benefit corporation, to manage, hold in trust and invest certain assets of Goodwill, for public, educational and charitable purposes. The fund is known as the "The Goodwill Foundation Trust". According to the agreement, SVCF shall hold, manage, invest, and reinvest in the fund, shall collect the income, and shall pay and disburse amounts to the Organization in accordance with the policies of the SVCF upon the request of the Organization.

The SVCF shall at all times act as the agent and trustee of Goodwill for the investment and management purpose, and so long as the Organization has an IRS charitable tax exemption, Goodwill's Board of Directors may direct the expenditure of any or all of the principal or income from the fund. The principal and accumulated income and interest at all times shall be owned by Goodwill.

The Organization participates in SVCF's Long-Term Investment Pool which is invested in 50% equities, 25% alternative investments and 25% fixed income.

In accordance with SFAS No. 157 all of the following investments are classified as Level 1 investments (See Note 3).

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 4 - INVESTMENTS (Continued):

The market value of investments as of December 31, consisted of the following:

	2008	2007
Equity Securities	\$ -	\$ 5,000
Investments Held and Managed by SVCF	643,496	865,969
Total Investments, at Market Value	\$ 643,496	\$ 870,969

Investment income for the years ended December 31, consisted of the following:

	2008	2007
Interest and Dividends	\$ 13,293	\$ 40,929
Net Realized and Unrealized Gains (Losses) on Investments	(223,579)	58,139
Total Investment Income (Loss)	\$ (210,286)	\$ 99,068

NOTE 5 - INVENTORIES:

Inventories, except for donated merchandise held for resale, are valued at the lower of cost (first-in, first-out) or market. Inventory costs of purchased goods include freight-in, assembly, and improvement costs, if any. Goods donated to Goodwill are valued at their estimated fair market value and recognized as support in the statements of activities. Donated merchandise remaining in inventory at year end are also recorded at their estimated fair market value. The estimated fair market value of the donated merchandise inventory is estimated as the retail-selling price of the donated inventory, less any retail processing and selling costs incurred by Goodwill. Merchandise inventory is not priced on an item-by-item basis but rather based on overall estimates of inventory turns. Donated automobiles are valued at estimated fair market value. The estimated fair value of contributed goods received for the years ended December 31, 2008 and 2007 was \$4,325,860 and \$5,097,017, respectively.

The estimated fair value of donated goods sold for the years ended December 31, 2008 and 2007 was \$1,489,041 and \$1,267,432, respectively.

Inventory as of December 31, consisted of the following:

	2008	2007
Donated and Purchased Merchandise Inventories at Plant and Retail Stores	\$ 1,583,773	\$ 1,913,873
Donated Automobiles	-	37,228
Total Inventories	\$ 1,583,773	\$ 1,951,101

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 6 - LAND, BUILDINGS AND EQUIPMENT:

The cost and related accumulated depreciation and amortization of land, buildings and equipment as of December 31, consisted of the following:

	2008	2007
Land and Buildings	\$ 19,993,865	\$ 19,947,329
Leasehold Improvements	2,109,300	2,124,707
Equipment	4,998,371	5,928,031
	27,101,536	28,000,067
Less: Accumulated Depreciation and Amortization	(13,442,549)	(13,693,768)
Land, Buildings and Equipment, Net	\$ 13,658,987	\$ 14,306,299

Depreciation and amortization expense for the years ended December 31, 2008 and 2007 was \$871,594 and \$753,285, respectively.

NOTE 7 - MARKET VALUE OF LAND AND BUILDINGS:

The Organization owns the land and buildings of several of their retail stores, as well as the land and building of their headquarters. Land and buildings are recorded at cost at date of acquisition and the buildings are depreciated over their estimated useful lives. Throughout the years, the Organization has had several appraisals performed for their retail stores and headquarters. The most recent appraisals for the stores ranging from June 2006 to October 2008 were performed by Smith and Associates, Inc. The headquarters were appraised in April 2009 by The Property Sciences Group Inc.

Market value as of December 31, 2008 as estimated by management based on the above listed appraisals and adjusted down for the recent drop in real estate value where applicable consisted of the following:

	Market Value Estimate	Net Book Value	Market Value Estimate in Excess of Net Book Value
<u>Retail Stores (8 locations)</u>	\$ 24,710,000	\$ 8,299,724	\$ 16,410,276
<u>San Jose Headquarters - 1080 North Seventh Street</u>	19,600,000	3,578,873	16,021,127
	\$ 44,310,000	\$ 11,878,597	\$ 32,431,403

Based on the above market value estimate vs. net book value comparison schedule, the Organization's market value estimate as of December 31, 2008 exceeds it's net book value by \$32,431,403.

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 8 - LINE OF CREDIT:

The Organization has a \$3,200,000 line of credit with Comerica Bank secured by real property owned in San Jose, California. The line of credit bears interest at prime minus 1% (3.25% at December 31, 2008). As of December 31, 2008 and 2007 the amount outstanding was \$2,605,827 and \$2,800,000, respectively.

The line of credit agreement includes restrictive covenants related to minimum tangible net worth and cash flow coverage ratio. At December 31, 2007 the Organization was in compliance, however, as of December 31, 2008 the Organization was not in compliance with the covenants. The Organization is in the process of restructuring this debt by obtaining long-term financing from another financial institution. See Note 17.

NOTE 9 - DEPOSIT ON PENDING SALE OF REAL PROPERTY / RECOGNITION OF DEPOSIT DUE TO DEFAULT ON NON-SALE OF REAL PROPERTY:

During the year ended December 31, 2006 the Organization received, as provided by the Purchase Sale Agreement ('PSA') between the Organization and W Lyon Homes, a non-refundable deposit of \$1,000,000.

During the year ended December 31, 2007 the Organization realized and recognized income on the non-refundable deposit of \$1,000,000 as a result of the contract default on the part of the buyer, W Lyon Homes.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

The Organization's temporarily restricted net assets as of December 31, consisted of the following:

	<u>2008</u>	<u>2007</u>
Purpose Restriction:		
Vocational School Programs	\$ 175,346	\$ 296,650
Homeless Veteran's Reintegration Program	209,888	224,158
School-to-Career Program	28,383	27,625
Time Restriction:		
United Way Allocations and Designations for 1/1/08 - 6/30/08	-	50,000
Total Temporarily Restricted Net Assets	<u>\$ 413,617</u>	<u>\$ 598,433</u>

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	2008	2007
Purpose Restrictions:		
Vocational School Programs	\$ 445,584	\$ 263,698
Homeless Veteran's Reintegration Program	314,084	75,656
School-to-Career Program	54,493	27,625
Time Restriction:		
United Way Allocations and Designations	50,000	50,000
Total Net Assets Released from Restrictions	\$ 864,161	\$ 416,979

NOTE 12 - PENSION PLAN INVESTMENT LOSS:

Due to an unprecedented drop in the stock market during the year ended December 31, 2008, Goodwill's pension plan took a loss of \$972,018 or approximately 34% on the asset balance as of January 1, 2008. Part of the loss may be recouped. Goodwill has taken steps to mitigate its future liability by freezing the Defined Benefit Pension Plan as of March 31, 2009 and plans to start providing matching contributions for its existing 403(b) plan during 2009.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

Goodwill leases seven retail stores and equipment under non-cancelable operating lease agreements expiring on various dates through 2013. The leases for three of the retail stores contain an option to extend through 2026. Goodwill leased two of their retail store locations and subleased two other locations and receives rental income for those leases. The net minimum future payments under non-cancelable operating lease obligations, net of subleases are as follows:

Year Ending December 31,	Amount
2009	\$ 783,452
2010	577,297
2011	21,636
2012	37,012
2013	70,939
Total Future Minimum Operating Lease Payments	\$ 1,490,336

Rent expense under the operating leases for the years ended December 31, 2008 and 2007 was \$1,368,127 and \$1,368,890, respectively.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued):

Goodwill leases certain equipment and autos under capital leases. A summary of future capital lease obligations at present value are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 174,410
2010	183,981
2011	184,985
2012	111,839
2013	<u>7,002</u>
Total Capital Lease Obligations, at Present Value	662,217
Less: Current Portion	<u>(174,410)</u>
Long-Term Capital Lease Obligations, at Present Value	<u>\$ 487,807</u>

In September 2005, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility for five years with a five-year option to extend the lease. The Organization is not directly responsible for making the monthly lease payments for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The lease payments escalate over the future lease term. The remaining monetary exposure as of December 31, 2008 is \$369,539. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

In November 2003, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility for five years with a five-year option to extend the lease. The lease was extended in 2008. The Organization is not directly responsible for making the monthly lease payments for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The lease payments escalate over the future lease term. The remaining monetary exposure as of December 31, 2008 is \$609,554. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued):

In April 2002, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility with a one-year rolling guarantee. The Organization is not directly responsible for making the monthly lease payments of \$14,003 for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The lease includes an escalation clause in which the monthly amount increases by 2.5% on each anniversary. The remaining monetary exposure as of December 31, 2008 is \$168,033. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

In August 2002, the Organization agreed to guarantee the lease payments for a Goodwill of Southern Nevada, Inc. facility with a one-year rolling guarantee. The Organization is not directly responsible for making the monthly lease payments of \$17,652 for the facility, but in the event of default by Goodwill of Southern Nevada, Inc., the Organization may be joined in any action against Goodwill of Southern Nevada, Inc. related to the lease and may be responsible for any claims. The lease includes an escalation clause in which the monthly amount increases by 2.5% on each anniversary. The remaining monetary exposure as of December 31, 2008 is \$208,380. The recourse maintained by Goodwill of Santa Clara County, Inc., if it were to be forced into paying for the remaining scheduled payments, would be to absorb Goodwill of Southern Nevada, Inc. as part of their operations. Management believes the likelihood of this occurring is remote.

Goodwill Industries of Santa Clara County, Inc. intends to renegotiate the leases noted above with plans to remove its responsibility as a guarantor. In May 2004, the Organization began negotiations with Goodwill of Southern Nevada, Inc. to remove Goodwill Industries of Santa Clara County, Inc. as a guarantor on these operating leases. These negotiations are still ongoing.

Goodwill is self insured for unemployment benefits given to former employees. Management has estimated the amount of benefits expected to be paid by Goodwill subsequent to December 31, 2008, with respect to claims related to 2008 and prior years. The amount accrued for unemployment benefits at December 31, 2008 and 2007 was \$40,626 and \$64,803, respectively. These amounts are included in "accrued payroll and benefits" in the accompanying statements of financial position.

NOTE 14 - RETIREMENT PLANS:

Goodwill has a defined benefit pension plan, which provides benefits to salaried exempt and salaried nonexempt employees. In addition, the Organization maintains a 403(b) deferred savings plan whereby employees may defer pre-tax earnings up to the IRS established limits.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 14 - RETIREMENT PLANS (Continued):

Defined Benefit Pension Plan:

Benefits provided are based on years of service and final compensation as defined in the provisions of the Plan. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Plan assets consist primarily of equity securities, mutual funds and a money market fund.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires an employer to recognize the funded status of benefit plan, measured as the difference between plan assets at fair value and the benefit projected obligation, in the statements of financial position. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses. Goodwill adopted this standard in its financial statements for the year ended December 31, 2007 which resulted in a recognition of a previously unrecognized cumulative loss of \$290,823.

Based on an actuarial study performed by Hayashi & Wayland, net pension cost as of December 31, included the following components:

	2008	2007
Service Cost - Benefits Earned During the Year	\$ 385,175	\$ 322,432
Interest Cost	219,930	199,745
Expected Return on Assets	(226,778)	(205,819)
Net Amortization and Deferral	18,909	10,251
Net Pension Cost	\$ 397,236	\$ 326,609

These net pension costs are included in "employee benefits" in the accompanying statements of functional expenses.

The unrecognized cumulative (gain) loss at December 31, 2007 is recognized in the statement of activities as "Effect of Adoption of FASB Statement No. 158" and is as follows:

	2007
Actuarial (Gain) Loss on Obligations for 2007	\$ 139,840
Actuarial (Gain) Loss on Plan Assets for 2007	54,780
Actuarial (Gain) Loss for 2007	194,620
Unrecognized Cumulative (Gain) Loss at January 1, 2007	106,451
Cumulative (Gain) Loss Recognized in Net Pension Cost for 2007	10,248
Unrecognized Cumulative (Gain) Loss at December 31, 2007	\$ 290,823

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 14 - RETIREMENT PLANS (Continued):

Based on an actuarial study performed by Hayashi & Wayland, the funded status of the Plan as of December 31, was as follows:

	2008	2007
<u>Change in Benefit Obligation:</u>		
Projected Benefit Obligation (PBO) at End of Year	\$ 3,559,018	\$ 3,361,379
<u>Change in Plan Assets:</u>		
Fair Value of Plan Assets at Beginning of Year	2,894,115	2,816,506
Actual Return on Plan Assets (Pension Plan Investment Income (Loss))	(972,018)	151,039
Employer Contribution	262,686	285,374
Benefits Paid	(407,466)	(358,804)
Fair Value of Plan Assets at End of Year	1,777,317	2,894,115
Funded Status	\$ (1,781,701)	(467,264)

	2008	2007
<u>Plan Assets Allocation:</u>		
Cash	2.0 %	3.8 %
Pooled/Mutual Funds	58.1 %	54.0 %
Stocks	39.8 %	42.2 %
Other	0.1 %	- %
Total Plan Assets Allocation	100.0 %	100.0 %

Weighted Average Assumptions Used to Determine Benefit Obligations at December 31:

Discount Rate (Pre-Retirement/Post Retirement)	6.50 %	6.00 %
Expected Annual Rate of Compensation Increase	5.00 %	5.00 %
Expected Annual Rate of Increase in Compensation and Benefit Limit	4.00 %	4.00 %
Pre-Retirement Mortality	None	None
Post-Retirement Mortality	94 GAR 50/50	83 GAR 50/50

Weighted Average Assumptions Used to Determine Net Periodic Pension Cost at December 31:

Discount Rate (Pre-Retirement/Post Retirement)	6.50 %	6.25 %
Long-Term Expected Rate of Return on Plan Assets	7.00 %	7.00 %
Expected Annual Rate of Compensation Increase	5.00 %	5.00 %

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 14 - RETIREMENT PLANS (Continued):

Expected Annual Rate of Increase in Compensation and Benefit Limit	4.00 %	4.00 %
Post-Retirement Mortality	94 GAR 50/50	83 GAR 50/50

Estimated Future Benefit Payments Through 2018:

Year Ending December 31,	Pension Benefits
2009	\$ 687,725
2010	\$ 282,978
2011	\$ 413,260
2012	\$ 307,273
2013	\$ 683,148
Years 2014-2018	\$ 1,575,101

The projected benefit obligation for the Plan was determined using assumed discount rates of 6.50% and 6.00% for the years ended December 31, 2008 and 2007, and an assumed long-term compensation increase of 5.0% for each of the years ended December 31, 2008 and 2007. The assumed long-term rate of return on plan assets was estimated at 7.0% as of December 31, 2008 and 2007.

The Plan's assumed long-term rate of return of 7.0% is based primarily on the expected returns of assets classes weighted for asset allocation. In addition, historical rates of return on asset classes are compared with the Plan's historical yield.

The Organization's investment goals state that plan assets are to be invested in a balanced portfolio that allows sustained growth without material losses.

403(b) Retirement Plan:

The Organization sponsors a 403(b) plan for all permanent Organization employees. Under the provisions of the plan, participating employees may make voluntary contributions through salary deductions up to the maximum amount allowed by law. During the years ended December 31, 2008 and 2007, no matching contributions were made by the Organization.

NOTE 15 - RELATED PARTY TRANSACTIONS:

In the ordinary course of business, Goodwill conducts business with related parties. Related party transactions are defined by SFAS No. 57, *Related Party Disclosures*, to include, but not limited to, transactions with national and local affiliates as well as entities whose officers or directors are governing board members.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 15 - RELATED PARTY TRANSACTIONS (Continued):

In 2004, a relocation loan was provided to the President and CEO of the Organization. A balance of \$143,406 was outstanding as of December 31, 2007. The loan bore interest at prime plus 1% and interest payments were due annually. Any outstanding balance of the loan was immediately payable upon the sale of the President and CEO's residence or his termination of employment with Goodwill. During the year ended December 31, 2008 the relocation loan receivable balance was applied to the Organization's pension liability to the President and CEO. Per the President and CEO's employment agreement, the Organization was to have made additional payments to the pension plan but these payments had not been made.

In 2005, a relocation loan was provided to the Executive Vice President of the Organization in the amount of \$30,000. The loan's interest was prime plus 1% with a due date of March 31, 2006. During the year ended December 31, 2007 the entire loan balance, plus interest was repaid.

In 2006, a loan was provided to the Executive Vice President of the Organization in the amount of \$23,000. The loan's interest was prime plus 1% with a due date of June 30, 2007. The loan due date was extended to March 31, 2008 and as of March 31, 2008 the entire loan balance, plus interest was repaid.

NOTE 16 - CONTINUING OPERATIONS:

Goodwill Industries of Santa Clara County, Inc. ended December 31, 2008 with a loss from operations of \$1,755,724 and a pension investment loss of \$972,018 for a total loss of \$2,727,742. The pension loss was due to an unprecedented drop in the stock market in the fourth quarter of 2008. The loss from operations was impacted by costs associated with the separation of key executives, increased landfill costs, additional expenses associated to a shift in retail product mix (increased purchased product sales), increased discounting, high turnover, lack of a training program, and unprofitable product lines. Additionally, Goodwill experienced a drop in revenue in the 2008 year versus the 2007 year.

Goodwill has minimized future liability on pension costs by freezing the plan as of March 31, 2009. Unprofitable product lines have been eliminated and the retail mix has been shifted back to donated goods. The retail discounting policy has become more disciplined and standardized. Discount levels have been lowered. Additionally, Goodwill is in the process of developing and implementing training programs for employees. The Organization has hired a training manager with the sole focus of internal training. Goodwill has implemented five teams to focus on core areas for Organization improvement: retail enhancement team, supply management team, workforce development team, dashboard and balanced score card team, and ICD opportunity team. Each team is in various stages of implementation, the retail and supply chain team will be fully implemented by July 1, 2009. Management has prepared a fully allocated cost model for store analysis and is using the cost model to improve and evaluate store performance.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 16 - CONTINUING OPERATIONS (Continued):

Changes have positively impacted Goodwill's bottom line by \$462,108 in 2009 (unaudited) as compared to last year for the period ended April 30, 2008. Several benefits have accrued because of changes to the product mix including lower landfill costs and payroll expenses, and improved cash flow. Management expects further revenue enhancement and cost reduction as it continues to execute its strategic plan.

NOTE 17 - SUBSEQUENT EVENTS:

Defined Benefit Pension Plan - Subsequent to the end of the year, the Organization froze the Defined Benefit Pension Plan as of March 31, 2009. The Organization plans to start providing matching contributions for its existing 403(b) plan during 2009.

Long-Term Financing - Subsequent to the end of the year, the Organization began steps to restructure its long-term financing in order to improve its current ratio and cash flow by paying off the line of credit noted in Note 8. On May 28, 2009 the Organization received a Commitment Letter to Provide Financing from Pan Pacific Bank for a \$2.5 million 5 year term loan, secured by real property owned in San Jose, California, with an amortization period of 25 years and an interest rate of 6.5%.

Line of Credit - In addition, on May 28, 2009 the Organization received a Commitment Letter to Provide Financing from Pan Pacific Bank for a \$650,000 line of credit, secured by real property owned in San Jose, California, with interest of prime plus 1.75% and floor interest rate of 6%.

SECTION II  
SUPPLEMENTARY INFORMATION

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

Year Ended December 31, 2008

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number/ Grant Number	Grant Period/ Period In Current Fiscal Year	Award Amount	Expenditures
<u>FEDERAL ASSISTANCE</u>					
<u>U.S. Department of Labor</u>					
Direct Program:					
Homeless Veterans Reintegration Project	17.805	HV-16399-07-60-5-6	7/1/07 - 6/30/08	\$ 299,814	\$ 112,869
	17.805	HV-16399-08-60-5-6	7/1/08 - 6/30/09	299,814	93,844
Total U.S. Department of Labor				599,628	206,713
<u>U.S. Department of Education</u>					
Direct Program:					
Rehabilitation Services - Service Projects	84.128	H128J060072-07	10/1/07 - 9/30/08	111,420	80,536
	84.128	H128J060072-08	10/1/08 - 9/30/09	74,280	34,371
Twenty-First Century Community Learning Centers:					
Pass Through:					
State of California Department of Education	84.287	07-14535-V927-3A	7/1/07 - 12/31/08	250,000	170,695
	84.287	08-14535-V927-3A	7/1/08 - 12/31/09	250,000	123,874
Total U.S. Department of Education				685,700	409,476
TOTAL FEDERAL ASSISTANCE				1,285,328	616,189
<u>NON-FEDERAL ASSISTANCE</u>					
Others					
City of San Jose - Healthy Neighborhood Venture Fund Program	N/A	N/A	7/1/07 - 7/31/08	356,176	27,626
City of San Jose - Healthy Neighborhood Venture Fund Program	N/A	N/A	7/1/08 - 7/31/09	55,251	26,868
Total Others				411,427	54,494
TOTAL NON-FEDERAL ASSISTANCE				411,427	54,494
TOTAL GOVERNMENTAL ASSISTANCE				\$ 1,696,755	\$ 670,683

See Accompanying Notes to Schedule of Expenditures of Federal and Other Governmental Awards.

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL  
AND OTHER GOVERNMENTAL AWARDS

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NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and other governmental awards includes the federal and other governmental grant activity of Goodwill Industries of Santa Clara County, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION III  
REPORTS

Thomas C. Bondi  
Lawrence S. Kuechler  
Roberto M. Maragoni  
Frank A. Minuti, Jr.

EMERITUS

Alexander W. Berger (1916-2005)  
Griffith R. Lewis



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets  
Robert W. Smiley

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Goodwill Industries of Santa Clara County, Inc.  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

We have audited the financial statements of Goodwill Industries of Santa Clara County, Inc. (a California nonprofit public benefit corporation) as of and for the year ended December 31, 2008, and have issued our report thereon dated May 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Goodwill Industries of Santa Clara County, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Goodwill Industries of Santa Clara County, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

55 S. ALMADEN BLVD. SUITE 600 SAN JOSE, CA 95128-1605 (408) 494-1200 (P) (408) 279-8186 (F)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Goodwill Industries of Santa Clara Counties Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Goodwill Industries of Santa Clara Counties Inc. in a separate letter dated May 6, 2009.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Berger/Lewis Accountancy Corporation".

BERGER/LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
May 6, 2009

Thomas C. Bondl  
Lawrence S. Kuechler  
Roberto M. Maragoni  
Frank A. Minuti, Jr.

EMERITUS

Alexander W. Berger (1916-2005)  
Griffith R. Lewis



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors  
Randy G. Peterson  
Todd W. Robinson  
David R. Sheets  
Robert W. Smiley

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133

To the Board of Directors  
Goodwill Industries of Santa Clara County, Inc.  
(A California Nonprofit Public Benefit Corporation)  
San Jose, California

Compliance

We have audited the compliance of Goodwill Industries of Santa Clara County, Inc. (a California nonprofit public benefit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Goodwill Industries of Santa Clara County, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Goodwill Industries of Santa Clara County, Inc.'s management. Our responsibility is to express an opinion on Goodwill Industries of Santa Clara County, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Goodwill Industries of Santa Clara County, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Goodwill Industries of Santa Clara County, Inc.'s compliance with those requirements.

In our opinion, Goodwill Industries of Santa Clara County, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

The management of Goodwill Industries of Santa Clara County, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Goodwill Industries of Santa Clara County, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Goodwill Industries of Santa Clara County, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
May 6, 2009

SECTION IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2008

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SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Goodwill Industries of Santa Clara County, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Goodwill Industries of Santa Clara County, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Goodwill Industries of Santa Clara County, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major programs included: Homeless Veterans Reintegration Program (HVRP) - CFDA 17.805, Grant No. HV-16399-07-60-5-6 and HV-16399-08-60-5-6, and Twenty-First Century Community Learning Centers - CFDA 84.287, Grant No. 07-14535-V927-3A and 08-14535-V927-3A.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Goodwill Industries of Santa Clara County, Inc. did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

U.S. DEPARTMENT OF LABOR

Name of Program - Homeless Veterans Reintegration Program

CFDA No. - 17.805

Grant No. - HV-16399-07-60-5-6 and HV-16399-08-60-5-6

Grant Period - 7/1/07-6/30/09

Findings - None

U.S. DEPARTMENT OF EDUCATION

Name of Program - Twenty-First Century Community Learning Centers

CFDA No. - 84.287

Grant No. - 07-14535-V927-3A and 08-14535-V927-3A

Grant Period - 7/1/07 - 12/31/09

Findings - None

GOODWILL INDUSTRIES OF SANTA CLARA COUNTY, INC.  
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2008

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NONE